2) **Auction format**. The auction format is the way in which bids will be solicited and accepted, the way in which bids will be processed, the way a clearing price will be determined, and the way in which winners will emerge.

3) **Bidder interface**. The bidder interface is the way in which bidders are provided with information about the auction process, the way in which data is disseminated, and the way in which the auction opportunity is promoted.

4) **Qualification requirements**. These are the procedures for qualifying bidders to participate in the auction.

5) **Rate Design**. The rate design parameters specify how the auction results will be translated into retail rates.

6) **Competitive safeguards**. These are the procedures and features of the auction process that promote competition at the auction.

7) **Regulatory Involvement**. This describes the role played by the regulator and other parties in the process.

8) **Cost recovery assurances**. This is a description of the assurances sought from the regulator with respect to cost recovery for supply arranged through the auction.

III.D. The Key Decision on the Elements of the New Jersey Process

Q. **Are you able to describe the decisions were made with respect to these elements for the New Jersey Auction Process and how was each of these decisions important to the success of the auction process?**

A. Yes.

Q. Please address the decisions made with respect to the first element, the product design, as it relates to the BGS-FP Auction.

A. With respect to the product design, several key decisions were made.

The first decision was to have winning suppliers provide full-requirements service. This meant that the BGS suppliers would supply all components of BGS supply, including capacity, energy, transmission, and ancillary services. BGS suppliers would fulfill wholesale market credit requirements, and would take, manage, and price, all volume risks including those from weather and customer migration. In return for supplying full-requirements service, suppliers would be paid for each kWh of BGS energy delivered to the wholesale meter. Suppliers would be paid as a function of the auction price, being paid the auction price times a summer factor reflecting higher summer costs from June to September (*e.g.*, the summer factor is greater than one and, for example, might be 1.2) and the suppliers would be paid the auction price times a winter factor reflecting lower winter costs for the remaining months (*e.g.*, the winter factor is less than one and, for example, might be 0.9).

Q. How did the decision to have winning suppliers provide full-requirements support the goals of the BGS procurement process?

A. The decision for the product to be full-requirements supply supported many of the goals of the process. The full-requirements product directly contributes to fulfilling the goal of having competitive entities take, manage and price BGS risks. The full-requirements product places risk management responsibility in the hands of competitive entities that were best suited to take, manage, and price these risks. This would ensure that customers' prices are disciplined by competitive forces. This also would help assure that these

services can be provided as efficiently as possible, i.e., with each supplier free to hedge or meet requirements in any way that it chose, rather than being limited by regulatory review.

The full-requirements product contributes to the goal of maximizing participation in the process. It expands the base of potential competitors, including financial players and marketers and traders without an asset base in the region. Those entities are able to use specialized skills in price-risk management to assemble wholesale portfolios and compete in the auction. Resp. Exs. 6.3 and 6.4 to this testimony summarize the participation in the auction and document the fact that participation has not been limited to portfolio owners in the regions, but has instead included a broad base of suppliers, including marketers and traders, and financial players.

A full-requirements product also avoids customer confusion by obtaining a market-priced fixed price service for customers so that customers can reasonably budget for energy usage. The full-requirements product also contributes to the goal of encouraging efficient retail markets. The price against which customers will evaluate competitive offers, the BGS price, is established and known in advance. Furthermore, it is set at a market level that includes all wholesale supply costs and risks.

Q. Was there another decision with respect to the first key element, product design, that you believe was important?

A. Yes. A second important decision was to determine the BGS supplier responsibility on the basis of "tranches", where each tranche represents a fixed percentage of the total BGS load requirement for an EDC. The percentage of BGS load corresponding to one tranche was chosen so that one tranche would be about 100 MW of peak load assuming normal

conditions and no migration. A supplier then bids to win a certain number of tranches, which translates to a set percentage of the total BGS load requirement.

Q. How did defining the supplier responsibility on the basis of tranches contribute to the goals?

A. The decision for suppliers to be responsible for a percentage of the BGS load requirements (and thus to be responsible for a percentage of the requirements for all customers) supported the goals of the process in the following ways.

This decision avoided customer confusion. Customers are not assigned to a BSG supplier, but continue to maintain a commercial relationship for BGS with the EDC. Customers are informed that a variety of suppliers are responsible for BGS supply, but are not switched to another supplier. In the New Jersey context, where there was considerable backlash over "slamming" in the context of telephone deregulation, this is an important consideration. This decision contributed to maximizing participation. Potential suppliers did not have to establish the infrastructure necessary to establish a retail relationship with customers, and did not have to take collection risk. Requiring a retail relationship would have limited the ability of some market players to participate in the auction.

Q. Were there other decisions with respect to the first key element, product design, that you believe were important?

A. Yes. Two more major decisions that were made. One decision was to have a standard supplier contract used statewide. During the regulatory review of the Auction Process, suppliers have an opportunity to comment on the contract and the BPU makes the final decision on contract terms. After the BPU has made its decision, the contract terms are

non-negotiable. The prospective bidders must accept the contract terms before they are qualified for the auction. Another decision was to procure the load on a rolling three-year basis.

Q. How did having a standard supplier contract and a rolling procurement structure further the goals of the process?

A. The standard contract served to further several of the goals of the process. The use of a standard contract promotes the transparency of the process and encourages participation. All bidders know the terms under which supply will be provided because the terms are standardized and are set forth in an agreement that is made available in advance of the auction. Given that all prospective bidders accept these terms before the auction, and given that, as we will explain below, all prospective bidders are required to meet the same standard qualification requirements, bids can be compared strictly on a price basis. The determination of the final price and of the winners at the auction then can be made in a transparent way through the auction format, also discussed below. A standard contract is also an essential item for ensuring fairness and for maximizing participation in the auction.

A rolling procurement structure promotes the goal of providing prices for customers that are reflective of market, while not exposing smaller customers to the possible volatility of short-term market fluctuations.

Q. Can you please describe the decisions that were made with respect to the second key element, the auction format?

A. Yes. In New Jersey, a clock auction format was selected. The clock auction format is a multiple round, open, and simultaneous auction.

753 The clock auction used in New Jersey can be described as follows. The BGS load
754 of each EDC for a given term is a product in the auction. In round 1 of the auction, the
755 Auction Manager announces a price for each product in the auction. Bidders bid by
756 specifying the number of tranches they are willing for each product at the prices for
757 round 1. After the first round of bidding, the Auction Manager tabulates the bids from all
758 bidders, calculating the amount of supply bid for each product. If there are more tranches
759 bid than are needed for a product, the Auction Manager will tick down the price for that
760 product in the next round. The Auction Manager announces the prices for the next round
761 to the bidders, along with an indication of the excess supply in the auction. Bidders are
762 given time to consider this information, and then the next round begins. In the next and
763 subsequent rounds, bidders bid at the new prices announced by the Auction Manager.
764 Bidders state how many tranches of each product that they wish to supply at that round's
765 prices. Bidders may, in response to the new prices in the round, reduce the number of
766 tranches that they are bidding in total across all products. If a bidder reduces the number
767 of tranches that the bidder wishes to bid in total, the bidder provides an exit price, which
768 is the last and best offer on the tranches being withdrawn from the auction. (Bidders,
769 however, can never increase the total number of tranches across all products.) Bidders
770 also may switch their bids from one product to another product. Bidders switch by
771 reducing the tranches bid on one product while increasing the number of tranches bid on
772 another.

773 The auction rules are designed to ensure that, if at any time during the auction, the
774 loads of all products are fully subscribed (*i.e.*, for each product there are sufficient bids to
775 serve its load), then the load of all products will be fully subscribed at the end of the

auction. There are specific rules that ensure that this is the case. First, if the price for a product does not change from one round to the next, bidders cannot rescind their offers by reducing the number of tranches bid for that product. Bids at a price are firm offers to supply. If the price does not change, the offer must be held. Second, if the price for a product does change and a bidder requests to switch out of a product or to reduce its number of tranches bid, and if that request would result in a product being undersubscribed, then the request can be denied. If a request to switch out or to withdraw tranches is denied, enough tranches are retained to ensure that the products are fully subscribed. The tranches are retained at the price at which the bidder is willing to bid them (either an exit price if the tranche is withdrawn, or the last price at which the tranche was bid if the bidder had requested a switch).

The auction ends when the total number of tranches bid equals the number of tranches being purchased. The bidders with bids remaining at the end of the auction are the winning bidders because they were willing to bid at the lowest prices.

A detailed set of rules comprising dozens of pages sets forth the procedures.

Q. How does the auction format, the second key element, work to advance the goals of the process?

A. The auction format chosen furthers several goals.

The clock auction format is transparent and maximizes participation. Bidders can clearly understand how the final auction price is determined and how winning bidders emerge. The fact that the format does not advantage established players can encourage smaller, newer or non-affiliated bidders to participate.

The clock auction format is an open auction. As I explained above, I believe that this kind of auction format decreases the uncertainty faced by bidders. As an auction format that provides feedback to bidders as to the common view of the market, this auction format is an effective means of eliciting the best bids when all bidders are evaluating a common market opportunity, as is the case for BGS load. By seeing how other bidders in the aggregate are responding, an individual bidder can adjust its bidding strategy and may well be willing to better its offer while it would not have had that opportunity in a sealed bid process. This auction format is particularly well suited to obtaining prices consistent with the market.

The clock auction is a simultaneous auction. As I explained above, I believe that procurement of different products simultaneously in a single auction process leads to the efficient allocation of the supply responsibility over these different products. As bidders can observe prices and revise their bids, those that can most efficiently supply a product will be more likely to win tranches of that product.

The clock auction is inherently a flexible auction format. It can accommodate, in one simultaneous auction, products of different terms, products for different EDCs, or products for different customers segments. The clock auction is an essential element of preserving the flexibility of the process and of accommodating future refinements.

The clock auction also helps ensure that all products are subscribed, even if there are several small products that may not have attracted as much interest on their own. In the clock auction format, all products can be put at auction at once so that the broadest range of interest is attracted to the auction, and invited to bid even on smaller products.

820 As the price tick down, if a smaller product's price remains high for a time, it will attract
821 bids and its price too will tick down.

822 **Q. Are there aspects of the auction format that you believe are particularly important**
823 **in contributing to the success of the BGS auction?**

824 A. Yes. Of all these ways in which the auction format contributes to the success of the
825 auction process, I believe the main strengths of the clock auction in the context of the
826 New Jersey BGS auctions are the following. First, the clock auction provides feedback
827 and information to bidders, which encourages the best bids. Second, the transparency of
828 the process encourages high participation and competitive prices. Finally, the format
829 allows for multiple products to be procured simultaneously leading to prices that are
830 reflective of market conditions.

831 **Q. Please describe the decisions made in the New Jersey BGS Auction with respect to**
832 **third key element, the bidder interface.**

833 A. With respect to the third element, the Bidder Interface, the decision was made that the
834 Auction Manager would be the clearinghouse for all bidder inquiries, information
835 requests, and comments. The Auction Manager would provide timely and fair access to
836 information for all bidders.

837 More specifically, the Auction Manager establishes a web site and obtains from
838 the EDCs the data and documents required by bidders to assess the auction opportunity.
839 The Auction Manager conducts bidder information sessions to promote the auction. The
840 Auction Manager informs potential bidders of regulatory developments. The Auction
841 Manager assists with understanding application requirements and bidding procedures.
842 Finally, the Auction Manager responds to all bidder queries. The EDC's do not directly

respond to any bidder inquiries and instead refer all questions and comments to the Auction Manager. The Auction Manager may require the assistance of EDC personnel to respond to some of the inquiries if, for example, a bidder inquiry could relate to the method used to obtain data posted to the web site. Even if this is the case, the Auction Manager obtains a response from the EDC and relays this response to the bidder.

Q. How does this help to achieve the goals of the process?

A. Having the Auction Manager provide the bidder interface promotes the fairness of the process. All potential bidders receive identical treatment, which helps to encourage maximum participation and ensures that incumbents or bidders affiliated with the EDCs do not receive any real or perceived advantage.

The Auction Manager, in providing the bidder interface, evaluates the information provided and assesses the needs and information requirements of bidders. The Auction Manager strives ensure that for all necessary information to be provided. This should decrease uncertainty for bidders and encourage the best bids.

Q. You mentioned qualification requirements as a fourth key element of the process. Please describe those qualification requirements in the context of the New Jersey BGS auction and explain how they help meet the goals of that process.

A. With respect to the fourth element, qualification requirements, several key decisions were made.

First, all applicants are required to accept the terms of the standard contract and the auction rules. Bidders cannot qualify for the auction without having accepted those governing documents. This decision furthers the goal of having a fair and transparent process.

Second, the qualification requirements ensure that, should the bidder come to win at the auction, it will be able to meet all the requirements of the supply contract. To the extent possible, the bidder is asked to show that it already meets, or that it will be able to meet by the start of the supply period, any requirement imposed by the contract (*e.g.*, credit requirements and licensing requirements.) This decision furthers the goal of having a fair process and of maximizing participation. I believe that these requirements are essential to allow all bidders to participate on an equal basis and to enable a price-driven comparison of the bids. This also permits a rapid execution of supply contracts, thereby reducing any option premium, and ensuring that the auction produces the best bids.

Third, the application process is in two parts. This allows a list of bidders to be established (after Part 1) so that each bidder can certify that it does not have any agreement with another bidder that would harm the competitiveness of the auction. This decision works hand in hand with the competitive safeguards presented below and ensures that the auction is competitive.

Q. Please discuss the fifth key element of the BGS Auction Process, which is Rate Design and describe how decisions made in that regard further the goals of that process.

A. The New Jersey auction process has a pre-established rate design methodology. The New Jersey EDCs file, and the BPU approves, formulae for converting the auction prices to retail BGS rates. Hence, for any auction clearing price, the retail rates that will prevail for BGS service are known.

This serves several important goals. First, it elicits the best possible bids by enabling bidders to reasonably evaluate the potential for migration and to make bids that

reflect an analysis of this risk. Second, it contributes to the development of efficient energy markets by ensuring that retail prices reflect auction results and thereby the market.

The specific rate design methodology used in New Jersey translates auction prices into retail rates that are seasonal and sometimes vary by time of day. This specific feature further contributes to the goals by encouraging efficient consumption and conservation decisions. An additional benefit is that by shaping prices seasonally, the incentive to game the BGS offering by seasonal switching is substantially reduced. This helps to limit customer confusion as it reduces the need for switching restrictions.

Q. What did you identify as the sixth key element of the New Jersey BGS Auction Process?

A. The sixth key element is competitive safeguards. As I have been asked to specifically prepare testimony on competitive safeguards I will describe these in more detail later. Competitive safeguards contribute to the goal of attracting maximum participation by ensuring that the auction will be fair to all, and to the goal of obtaining supply at competitive prices.

Q. You identified Regulatory Involvement as the seventh key element of the New Jersey BGS Auction Process. How is the New Jersey BPU involved and how does that involvement support the BGS Auction Process?

A. The BPU is intimately involved in the process in New Jersey. Regulatory involvement helps to attract maximum interest in the auction, as well as to help to provide assurances of cost recovery, which enable suppliers to offer the lowest price consistent with market

conditions. I will address this topic later when I discuss the role of the various entities involved in the process.

Q. The eighth and final key element of the New Jersey BGS Auction Process is Cost Recovery Assurances. Please explain these and describe why are they are a necessary part of the New Jersey BGS Auction Process.

A. In New Jersey, the BPU approves the formulas that will be used to develop retail rates at the time it approves the Auction Process. At the same time, the BPU also approves a reconciliation clause that ensures that revenues billed to BGS customers will equal payments made to BGS suppliers. The approval of the Auction Process and the auction results constitute a finding of prudence. The BPU also approves as prudent the contingency plans of each EDC. In accepting the Auction Results the BPU approves the specific rates that come from implementation of the approved formulas.

The EDCs still have the responsibility to prudently administer the contracts and any contingency plan purchases, but the *a priori* rate design and prudence determinations provide substantial assurance of cost recovery. This furthers the goal of maintaining financial integrity of the EDCs. Further, this helps to obtain lower prices in the auction as it provides assurance that the EDCs will be able to perform under the supplier contract.

Q. Do you believe that the New Jersey auction process has successfully met its goals?

A. Yes. The auctions have all been successful at procuring the full volume. Each auction has attracted more interest and the auctions have become increasingly competitive. The auctions have demonstrated that there are many entities able and eager to assemble products in the competitive wholesale market and provide price-risk management services. The winners include generation assets owners, energy trading and marketing

firms, and major financial players. The auctions have demonstrated that the market is competitive and that the process works. *See* Resp. Exs. 6.5 and 6.6 to this testimony for a description of the results of the New Jersey BGS auctions.

IV. COMPETITIVE SAFEGUARDS

Q. What is a "competitive safeguard"?

A. By a competitive safeguard, I mean an element of the auction process that limits the scope for anti-competitive behavior. Putting in place competitive safeguards serves the goal of maximizing the competitiveness of the auction, and of obtaining supply for customers at prices that are consistent with market conditions.

Q. In describing the elements of the New Jersey BGS auction process – and the process that Ameren is proposing in Illinois – you have noted that many elements of the process serve to maximize participation and promote maximum competition in the auction. If those elements are in place and the process is designed to elicit maximum participation, why are competitive safeguards needed?

A. Competitive safeguards are needed for two reasons.

First, competitive safeguards serve as a prudent safety net. The auction process is designed to elicit the best participation in the process. But the participation that in fact comes forward may not be sufficient to allow competitive forces to set the auction prices. While the process can be designed to promote competition, there may be market events, changes in the sector, or crises in the industry that negatively affect participation temporarily. Good planning requires that this contingency be examined and that a measure be ready and in place to ensure that the auction design promotes a competitive result even when participation is less than was desired or anticipated.

Second, there is a profit motive to behaving anti-competitively in any market. All markets have guidelines or rules to ensure that participants are behaving independently of each other and that competition is fair. Wholesale energy markets sometimes have bidding restrictions and other rules in place to ensure competitive outcomes. More generally, other laws and regulations are in place to protect competition. For example, antitrust laws are in place to ensure that market participants do not abuse their market position or collude.

The auction is a market on a smaller scale. The auction has its own guidelines and rules to ensure a competitive and fair bidding environment. Violations of some of these rules might also be violation of antitrust laws. For example, if two entities that had registered to bid independently in the auction in fact coordinate their bids, those entities would be violating specific rules of the auction and would be violating their undertakings in the application process. They might also be violating laws against bid-rigging. Even if some of the rules were redundant in the sense that to violate an auction rule would also mean violating an antitrust, these rules of the auction would still serve as a focused reminder to auction participants of requirements for competitive behavior.

Q. You mentioned that wholesale markets typically have rules to discourage anti-competitive behavior. If these rules are already in place, why are additional measures needed for the auction?

A. It is important to distinguish between competition in the auction and competition in the wholesale markets. The competitive safeguards discussed here are in place to ensure a competitive auction. The participants in the auction access wholesale markets to acquire components of full-requirements supply, such as capacity and energy. The PJM

Interconnection ("PJM") and Midwest Independent Transmission system Organization ("MISO") markets are under the jurisdiction of the Federal Energy Regulatory Commission ("FERC") and have market monitors that report to the FERC.

The competitive safeguards in the auction are aimed at ensuring that the benefits from competition that exists in markets for inputs to the auction product – such as capacity and energy – and the benefits of competition that exists for providing the price-risk manager service and assembling the supply portfolio are actually passed on to Ameren's customers through the Auction.

Q. What measures incorporated into the New Jersey BGS auction process would you consider as competitive safeguards? How do these measures limit anti-competitive behavior and promote a competitive outcome?

A. The measures that I would consider competitive safeguards are the following.

The **first** safeguard is that the Auction Manager can cut back the volume purchased through auction. The Auction Manager would cut back the volume when the participation in the auction, while it could be sufficient to obtain supply for the entire load, would not be sufficient to ensure a truly competitive bidding environment and a competitive result in the auction. In deciding whether to cut back the volume, or in determining what the volume should be if it is cut back, the Auction Manager follows a set of confidential guidelines approved by the BPU.

This measure is a safety net and ensures that, for the portion of the load that will be procured at auction, that prices are the result of competition and are reflective of the market.

Second, any volume not procured through the auction (*i.e.*, any volume cutback from the auction by the Auction Manager for purposes of ensuring a competitive result) would be procured through PJM-administered markets. This second competitive safeguard is a necessary complement to the first. Prospective bidders know that their only opportunity to serve BGS load is to participate in the auction. This competitive safeguard ensures that suppliers do not avoid the auction and, instead, seek to obtain a contract to serve BGS load outside of the auction. This ensures that all suppliers who want to serve BGS load must come to the auction. This, in turn, ensures that the final auction prices are the true result of competition.

Third, the New Jersey process includes a load cap, which limits the scope of anti-competitive behavior in the auction. A load cap is a limit to the number of tranches that a single bidder can bid and win in the auction. The load cap both limits the influence that any one bidder can have on the results of the auction and acts as a complement to the provisions for volume reduction (the first competitive safeguard). A bidder may be able to affect the prices at the auction by withdrawing a portion of its supply. Lowering the amount of supply offered by a single bidder weakens the ability of that bidder to withdraw the supply profitably. In the extreme, if a bidder has one tranche, the bidder cannot withdraw that tranche and profit from withdrawing the supply, as the bidder could no longer win at the auction.

The load cap is a complement to the provisions for volume reduction in the sense that it limits a bidder's ability to bid in supply at the indicative offer stage or in the first round of the auction that over-represents the bidder's interest in the auction. The bidder has an incentive to over-represent its interest if the Auction Manager uses indications of

that interest – such as first round bids or indicative offers – in determining whether the auction volume needs to be cut back. By over-representing its interest, the bidder would hope to avoid a volume cutback; once the volume is established at too high a level, a bidder could bid to truly represent its (smaller) interest in the auction. The auction would close faster and at prices higher than those that would have prevailed had the true level of interest been known from the outset. The load cap limits the extent to which each bidder can inflate its interest in the auction and thereby mislead the Auction Manager in setting the volume to be procured.

Finally, Association and Confidential Information rules are specified as part of the auction rules that bidders must accept in order to participate in the process. The association and confidential information rules are designed specifically for the auction format to ensure that the scope for anti-competitive behavior is minimized. Association and Confidential Information rules have specific measures that ensure the independence of bidders, that ensure that no bidder has information about its competitors' bids, and that ensure that opportunities for coordination among bidders are minimized. The Association and Confidential Information rules are managed through the qualification process to ensure that bidders that are registered to participate have every incentive to comply. As I mentioned before, violations of some of these rules might also be violation of antitrust laws. For example, if two entities that had registered to bid independently in the auction in fact coordinate their bids, those entities would be violating specific rules of the auction and would be violating their undertakings in the application process – and they might also be violating laws against bid-rigging. Even if some of the rules are redundant in the sense that to violate an auction rule would also mean violating an antitrust, these rules of

the auction would still serve as a focused reminder to auction participants of requirements for competitive behavior.

Q. Is it your understanding that Ameren proposes to include these competitive safeguards in its process?

A. Yes, that is my understanding. Ameren proposes to include these same competitive safeguards with a view to maximizing the competitiveness of the auction, namely:

- provisions for a volume cutback to promote a competitive outcome in each segment of the auction;
- a contingency plan in case of volume cutback that appropriately ensures that bidders do not have an opportunity to contract with Ameren to serve BGS load except through the auction;
- a load cap in each auction segment to limit the influence of any one bidder;
- Associations and Confidential Information rules to minimize the scope for anti-competitive behavior in each segment of the Ameren auction.

Q. Can you elaborate on Ameren's proposal for a volume cutback?

A. The Competitive Procurement Auction Rules filed in this proceeding provide to the Auction Manager the ability to cut back the volume purchased if this is necessary to ensure a competitive bidding environment. The decision on whether to cut back the volume is to be made separately for each segment of the auction (the Fixed Pricing segment and the Spot Market segment) because qualifications and bids and made separately for each segment. This means that it would be possible for the volume in the Spot Market Segment to be reduced while the Fixed Pricing segment proceeded at full volume or vice-versa. The Auction Manager would use guidelines to assess whether the

volume in a segment must be reduced and to calculate the magnitude of the volume reduction, if any. To avoid possible gaming by bidders that could undermine the effectiveness of the safeguard, the exact algorithms and method that the Auction Manager uses should be kept confidential. For example, if bidders knew that the guidelines to determine the volume in a segment relied solely on the bids in the first round, bidders may have an incentive to over-represent their interest in the first round to avoid a volume cutback that would otherwise have been necessary to get a competitive results.

Q. What is your understanding of Ameren's proposal for a contingency plan?

A. For any volume not procured through the auction (for example, any volume cutback from the Fixed Pricing segment by the Auction Manager for purposes of ensuring a competitive result), Ameren's contingency plan specifies that any such volume would be procured through MISO-administered markets. This properly ensures that suppliers do not have an opportunity to obtain a contract to serve BGS-FP, BGS-LFP, or BGS-LRTP load outside of their participation in the auction.

Q. What is your understanding of Ameren's proposal regarding the load cap?

A. Ameren is proposing that each segment of the auction be subject to a 50% load cap. A bidder in the Spot Market segment could bid or win no more than 50% of the tranches of BGS-LRTP load, the only product in the Spot Market segment. A bidder in the Fixed Pricing segment would be limited to 50% of the tranches in the segment, but a bidder would not be limited to 50% for a given product. For example, if there were 80 tranches in the Fixed Pricing segment, and 25 of those tranches were tranches of BGS-LFP load, a bidder could bid for and win all 25 tranches of BGS-LFP load. Although the bidder would be bidding on 100% of a given product (*i.e.*, BGS-LFP load) the bidder would

only be bidding on 25/80 = 31.25% of the tranches for the segment in which the product resides (*i.e.*, the Fixed Pricing segment).

Q. Is a load cap by segment appropriate given the design of the auction as proposed by Ameren?

A. Yes, I believe a load cap by segment is the appropriate choice given the design of the auction.

In the auction proposed by Ameren, bidder qualification is separate for each segment. Bidder qualification is undertaken for all bidders concurrently, but a bidder that wishes to bid in both segments must qualify separately for each segment of the auction. Similarly, bids on both segments are submitted simultaneously, but separately. A bidder who has registered to bid for both segments of the auction submits a separate number of tranches for each product of each segment, and the bidder cannot switch tranches from one segment to the other. A bidder who has registered to bid for one segment only can only bid for that segment. Bidders are provided for information regarding the total excess supply for each segment separately. Bidding on each segment will typically end at different time.

A load cap by segment, which appropriately limits the influence that any one bidder can have on the results of a segment, is consistent with the design of the auction. A load cap for the entire auction is not appropriate, as bidders cannot switch among all products. The New Jersey fixed price auction uses a load cap for each utility whose load is at auction and it ensures that each utility has a diversified base of suppliers. This rationale does not apply to the Ameren auction so that a load cap by product is not necessary.

Q. Can the load cap proposed by Ameren be expected to appropriately limit the scope for anti-competitive behavior in the Fixed Pricing segment?

A. In my opinion, the load cap proposed by Ameren can be expected to appropriately limit the scope for anti-competitive behavior in the auction.

As I stated earlier when examining the need for competitive safeguards, a load cap should limit a bidder's ability to bid in supply at the indicative offer stage or in the first round of the auction that over-represents the bidder's interest in the auction. In my opinion, the load cap proposed by Ameren would provide discipline on a bidder's ability to over-represent its interest in the auction.

A load cap of 50% would mean that, in the Fixed Pricing segment, there would be a limit of 40 tranches that a bidder could bid and win in the first auction. In subsequent auctions, there would a limit of roughly 22 tranches that a bidder could bid and win since one-third of the BGS-FP load (approximately 18 tranches) and the totality of the BGS-LFP load (approximately 25 tranches) would be at auction. In my opinion, these limits would be unlikely to constrain the participation of marketers and financial players that form the bulk of the anticipated bidding pool. These entities, in my opinion, are unlikely to have business plans that would incorporate exposure to fixed-price products in excess of these amounts. To the extent that some of these entities would wish to participate at lower levels, particularly in the first year, this load cap may not completely eliminate these entities' ability to over-represent their interest; however, I believe that a load cap at this level would impose the needed discipline on a bidder's ability to do so. This discipline means that the Auction Manager is likely to set the volume in the Fixed Pricing segment on the basis of reasonably reliable information.

As I stated earlier, competitive safeguards are needed in part to curb the influence that any one bidder can have on the results of the auction. Competitive safeguards can serve to limit a bidder's ability to withdraw tranches profitably, which in turn prevents the bidder from closing the auction unilaterally at prices higher than would otherwise have been the case. There are potentially two instruments that can be used to limit a bidder's ability to withdraw tranches profitably. The first instrument is the load cap: lowering the amount of supply offered by a single bidder lowers the profitability of withdrawing supply. In the extreme, if a bidder bids a single tranche, the bidder cannot withdraw that tranche and profit from doing so, as the bidder could no longer win at the auction. The second instrument is the information provided to bidders: restricting information regarding excess supply in the auction means that the benefit – and therefore the profitability – of withdrawing tranches becomes uncertain. However, restricting information in this way can also hamper the ability of bidders to learn and revise their bids on the basis of market information, which is one of the key benefits of an open auction format. Bidders in a clock auction will rely on the fact that they are provided with information that relates the going prices to the amount of excess supply in the segment.

In my opinion, the combination proposed by Ameren of a 50% load cap together with limiting information regarding the remaining excess supply in each segment but only when bidding nears its conclusion strikes the right balance. This combination should be effective in limiting the influence of a bidder or a small group of bidders on the auction results while providing information to bidders on a round-to-round basis to enable bidders to revise their bids and learn on the basis of the information available to them.

Q. Can the load cap proposed by Ameren be expected to appropriately limit the scope for anti-competitive behavior in the Spot Market segment?

A. In my opinion, the load cap proposed by Ameren in the Spot Market segment could also be expected to limit the scope for anti-competitive behavior. There are expected to be 25 tranches in the Spot Market segment so that no bidder could bid and win more than approximately 13 tranches. I believe that the load cap can be expected to appropriately limit a bidder's ability to over-represent its interest in the auction and to curb the influence that any one bidder can have on the results of the auction. The reasons are similar to those I presented for the Fixed Pricing segment. The load cap is unlikely to limit participation from interested parties but is likely to limit any ability to overstate interest. The load cap along with provision to limit information as bidding nears a close is likely to curb any influence that a bidder or small group of bidders could exert on the auction results.

Q. Can you elaborate on Ameren's proposal for Associations and Confidential Information rules?

A. These rules are included in the Competitive Procurement Auction Rules filed in this proceeding. (*See* Resp. Ex. 6.9 attached to this testimony.) The Association and Confidential Information rules are essentially the same as those used in the New Jersey BGS auction process. The rules proposed by Ameren ensure that bidders in a segment are independent of each other, and that no bidder in a segment has information about the bids of its competitors. These rules appropriately refer to a given segment of the auction, given that the bidding in each segment is separate and that the qualification of bidders for the two segments is separate.

In my opinion, these rules are specified appropriately given the auction design to minimize the scope for anti-competitive behavior.

Q. Do you believe that altogether the competitive safeguards proposed by Ameren are sufficient?

A. Yes, I believe that these measures are sufficient and should promote a competitive result in each segment of the auction.

V. THE DETAILS OF THE AMEREN PROPOSAL

Q. You have just described Ameren's proposal for competitive safeguards. Are you aware of the details of the proposal by Ameren to use an auction process to procure supply for its customers that have not chosen an Alternative Retail Electric Supplier ("ARES")?

A. Yes. I have reviewed the elements of the Ameren proposal and I have contributed to the Competitive Procurement Auction Rules that Ameren has filed in this proceeding.

Q. Could you please describe the elements of the Ameren Proposal?

A. Certainly. I would like to structure my answer to this question by referring to the eight key elements of an auction process that I identified when presenting the New Jersey BGS auction.

Q. Could you please present your understanding of the product design?

A. The Ameren proposal is to procure full-requirements service for all customers from its three Integrated Distribution Companies ("IDCs"), namely Central Illinois Light Company d/b/a AmerenCILCO, Central Illinois Public Service Company d/b/a AmerenCIPS, and Illinois Power Company d/b/a AmerenIP, through a single auction process.

Starting January 1, 2007, customers that have not chosen an ARES will be on one of two types of service: a fixed-price service and a real-time pricing service. R&SB customerswill be on a fixed-price service. LC&I customers will be on a real-time pricing service unless they elect to take a fixed-price service and to remain on that service for one year. LC&I customers will have a 30-day sign-up window that will start the first business day after Ameren makes its Market Value Informational Filing pursuant to Rider MV and that will end before the supply period begins on January 1, 2007.

The load at auction could be as large as 8,000 MW. The load will be divided into three categories: (1) BGS-FP load, which is the load of R&SB customers; (2) BGS-LFP load, which is the load of LC&I customers who will have elected a fixed-price service; and (3) BGS-LRTP load, which is the load LC&I customers who have not elected a fixed-price service, R&SB customer who have elected a real-time pricing service, and returning customers who have not yet committed to taking BGS service for a period of one year. The load for each category will be divided into a number of tranches. For a given category, each tranche will account for the same percentage of the load. (For example, if the BGS-LFP load is divided into 25 tranches, each and every BGS-LFP tranche accounts for 4% of the load of all BGS-LFP customers.) The number of tranches for each category will be set so that the maximum size of each tranche (counting all customers on Ameren service, as well as customers served by ARES who could return to the service) is roughly 100 MW.

Q. Please describe the terms associated with the BGS products?

A. The supply period for BGS-LFP tranches and for BGS-LRTP tranches in the first auction will be from January 1, 2007 to May 31, 2008. To harmonize the procurement process

with the MISO planning year, the BGS-LFP and for BGS-LRTP supply period for subsequent auctions will be 12 months, from June 1 to May 31.

There will be three supply periods for BGS-FP tranches in the first auction: January 1, 2007 to May 31, 2008; January 1, 2007 to May 31, 2009; and January 1, 2007 to May 31, 2010. As much as practicable, an equal number of tranches will be procured for each supply period. In subsequent auctions, one-third of the BGS-FP load will be procured annually for a three-year supply period.

Interested suppliers may bid for the right to provide full-requirements service for a portion of one or more of the load categories at auction, and for one or more supply periods.

Q. Is Ameren proposing a standard supply contract?

A. Yes, Ameren is proposing a standard supply contract for each load category and this supply contract specifies in detail the nature of the product to be supplied.

All bidders who win the right to serve BGS-FP load and who become a BGS-FP supplier will sign the same BGS-FP Supplier Forward Contract ("BGS-FP Contract"). This standard contract is filed in this proceeding. The BGS-FP Contract explains that the BGS-FP supplier will be required to supply full-requirements service for the portion of BGS-FP load corresponding to the number of tranches won. Full-requirements service includes energy, capacity, all losses and congestion costs, as well as any other services as may be required by MISO, but excluding Network Integration Transmission Service ("NITS"). As the load Serving Entity ("LSE"), the Ameren Illinois utilities will provide NITS and ancillary services. Each BGS-FP supplier is responsible for the costs of

ancillary services that will be provided by the Ameren Illinois utilities. Each BGS-FP supplier is required to be a MISO Market Participant, as MISO defines that term.

In exchange for providing this service, the BGS-FP supplier will receive the final price as determined at the auction (the price for each supply period may be different), times a seasonal factor, for the load that the supplier serves. The seasonal factor will be larger than 1.0 in the summer to account for higher costs, while it will be lower than 1.0 in the winter to account for lower costs.

As described in the BGS-LFP Supplier Forward Contract ("BGS-LFP Contract") filed in this proceeding, a bidder who wins at the auction and who becomes a BGS-LFP supplier will be required to supply full-requirements service for the portion of BGS-LFP load corresponding to the number of tranches won. All BGS-LFP suppliers will be required to sign the same standard contract. Just as above, each BGS-LFP supplier is responsible for the costs of ancillary services that will be provided by the Ameren Illinois utilities. Each BGS-LFP supplier will be required to become a MISO Market Participant, as MISO defines that term. In exchange for providing this service, the BGS-LFP supplier will receive the final price as determined at the auction times a seasonal factor for the load that it serves. The seasonal factor in the BGS-LFP contract in general will not be the same as the seasonal factor in the BGS-FP contract.

As described in the BGS-LRTP Supplier Forward Contract ("BGS-LRTP Contract") filed in this proceeding, a bidder who wins at the auction and who becomes a BGS-LRTP supplier will be required to supply full-requirements service for the portion of BGS-LRTP load corresponding to the number of tranches won. All BGS-LRTP suppliers will be required to sign the same standard contract. In exchange for providing

this service, the BGS-LRTP supplier will receive a payment in two parts. The first part will be a payment for energy delivered to Ameren at the real-time hourly MISO Ameren Illinois zonal locational marginal price. The second part will be the charge determined at the auction for the BGS-LRTP product and will be a payment for managing all risks, and for providing capacity, as well as any other services required by MISO. Just as above, each BGS-LRTP supplier is responsible for the costs of ancillary services that will be provided by the Ameren Illinois utilities. The auction clearing price will be stated in $/MW-day and the payment will be made on the basis of the capacity requirement for BGS-LRTP load on a daily basis and the share of the BGS-LRTP load for which the supplier is responsible.

Q. Please provide your understanding of the second element of the auction process proposed by Ameren, the auction format.

A. Certainly. The auction format specifies the way in which bids are solicited, processed, and the way that a clearing price and winners are determined at the auction.

The Ameren proposal is to use a Simultaneous, Multiple Round, Descending Clock auction format (a "clock auction"), essentially the same as the format used in New Jersey, to procure load for all its customers. The auction is simultaneous in the sense that all products are procured in a single process. The auction will have multiple rounds. In each round, bidders state how many tranches they wish to supply of each product. At the end of each round, if more tranches are bid than are needed for a given product, then the price of that product "ticks down." This process continues until the amount bid is just enough for the number of tranches to be procured.

Q. Can you use an example to illustrate and explain further how the prices for the products tick down?

A. Resp. Ex. 6.7 to this testimony provides a two-round example of how the clock auction works in the Ameren proposal that illustrates how and when the prices tick down. Resp. Ex. 6.8 to this testimony shows how a round proceeds.

Following the example illustrated by Resp. Ex. 6.7 to this testimony, and the schematic of the round presented in Resp. Ex. 6.8 to this testimony, first the Auction Manager announces prices for each product in round 1. (The Auction Manager will have first informed all registered bidders of the round 1 prices three days prior to the start of the auction.) The products are separated into two segments – the Fixed Pricing segment and the Spot Market segment. In the Fixed Pricing segment there are products: the BGS-FP load for a 17-month supply period, the BGS-FP load for a 29-month supply period, the BGS-FP load for 41-month period, and the BGS-LFP load for a 17-month period. In the Spot Market segment, there will be one product: the BGS-LRTP load for a 17-month period. In subsequent auctions there will be two products in the Fixed Pricing segment, a three-year BGS-FP product and a one-year BGS-LFP product, and one product in the Spot Market segment, the BGS-LRTP product.

Bidders then bid by stating how many tranches of each product they wish to serve for each of the products at the round 1 prices. At the end of the bidding in round 1, the Auction Manager calculates the number of tranches bid for each product. If there are more tranches bid than are needed for a product, the price for that product ticks down and a lower price is announced for round 2. The greater is the excess supply on a product, the